

Public Comments for NDC RFP workshop on Jan 16-17, 2014, by Kent Ervin, active participant

Thank you for the opportunity to provide input for this process. I would like to address a few specific points related to the next recordkeeper search:

- 1) **Single versus multiple recordkeepers.** The 2012 RFP clearly showed significant savings with a single recordkeeper. There is no reason to expect that the market has changed significantly since then. A single recordkeeper is also easier and cheaper for NDC to administer and monitor, e.g., reducing consultant fees. With open architecture for mutual funds, there is no advantage to having two different vendors provide similar or identical funds with different expense ratios. The only investment advantage of more than one vendor is that stable value accounts could be backed by different insurance companies, providing some diversification against default risk if a participant invests with multiple providers. However, better protection from default risk may be obtained by choosing a stable value product that is not a general account subject to one insurer's credit.
- 2) **Safety of insured accounts.** The financial strength rating of the insurer is a key factor in determining the safety of a guaranteed income fund and is a most important fiduciary concern especially for retirees. Neither of the two finalists in the recent RFP met the minimum financial strength ratings of AA-/Aa3 recommended by a past NDC consultant for choosing a guaranteed income fund (Mercer in 2008-2009). If a financial crisis of the 2008 magnitude recurs, it is doubtful that the federal government would again bail out insurance companies (as it did with The Hartford by allowing it to become a 'bank' temporarily). NDC has established a lower trigger of below A-/A3 for emergency consideration of replacement, but the Committee needs to consider whether that level is sufficient for selecting a future contract and whether relying on the financial strength of a single company is really adequate protection for NDC participants.
- 3) **Investment line-up.** In the last RFP, it was difficult to compare pricing because of the different investment vehicles offered by various vendors, especially for proprietary stable value funds. That could be avoided if the Committee chooses funds for a single investment fund line-up prior to the RFP, and then requires all vendors to bid on that lineup for an apples-to-apples comparison. In particular, the Committee should conduct a full fund search in advance to select a best-in-class non-proprietary stable value fund that most recordkeepers can support. Then ask for separate bids using that stable value fund versus substituting the provider's own option. That would allow the Committee to compare the offerings directly and fairly. Choosing a non-proprietary stable value fund would also educate the Committee and participants on the options and trade-offs. The final fund line-up could be reconsidered once recordkeeper(s) are chosen.

- 4) **Transparent and uniform fees.** The Committee should consider how to most fairly charge participants for recordkeeping and NDC administrative costs. Choose either a flat per-participant charge or a uniform asset-based percentage (bps) charge on all assets *including any general accounts* and with no revenue sharing retained by the recordkeeper. By charging a uniform fee for all participants and assets, the providers won't need to recoup recordkeeping expenses from their general account profits, and they could presumably offer a higher crediting rate instead. Under this scenario, there should be no difference in recordkeeping fee bids with or without proprietary funds—if there is a lower bid using a general account it means general account holders are subsidizing recordkeeping costs for other funds. The Committee needs to decide whether it wants that subsidization to continue.
- 5) **Target date funds.** The indexed Vanguard target date funds with set glide paths as Qualified Default Investment Alternatives (QDIAs) are very effective and inexpensive professional management options for “please-do-it-for-me” participants, as well as providing fiduciary self-harbor protection for plan-directed investments under ERISA rules as best practice. Most participants don't need individualized asset management with an added fee. I would just suggest increasing the number of target dates to 5 year intervals to more closely match the retirement dates of participants.
- 6) **Re-enrollment strategy to improve asset allocations.** For historical reasons, the asset allocations of NDC participants are strongly skewed toward the Hartford General Account, which provides a guaranteed but a relatively low return compared with historical market performance. Because PERS participants already have a guaranteed retirement income stream, a fixed interest account does not provide diversification. Education programs have very limited effectiveness in inducing participant action. If the NDC Program is serious about improving this situation, the Committee could consider a “re-enrollment” process that defaults all future contributions into the QDIAs (age-appropriate target date funds). Of course, individuals could opt-out and/or change their allocations at any time. The existing asset allocation could be further improved through a full “re-investment” process, where all existing funds transfer by default into the QDIAs (again, with individual investment allocation elections allowed). Re-enrollment or re-investment has the advantage of a fresh start getting most participants to a reasonable allocation, but does require a high level of communication during the transition.